



Independent Auditor's System Report  
For Payphone Compensation  
As required by FCC Order 03-235  
Docket No. 96-128

July 3, 2014

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## **Independent Auditor's Report**

### **System Audit Report**

Board of Directors  
IDT Telecom, Inc.

At the request of IDT Telecom's management, we have examined the call tracking systems of IDT Telecom for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. Management is responsible for compliance with those requirements. (See Exhibit 'B') Our responsibility is to express an opinion on IDT's compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of IDT accurately tracks payphone calls to completion and that IDT satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence of compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on IDT's compliance with specified requirements.

In our opinion, IDT complied, in all material respects, with the aforementioned requirements for the period mentioned through June 30, 2014. IDT has sufficient controls in place to provide reasonable assurance to achieve the control objectives namely that the IDT call tracking system accurately tracks payphone calls to completion.

The description of policies & procedures concerning Payphone Compensation at IDT, as well as information concerning tests of the operating effectiveness includes the period of Q2 2014. Information concerning payments made includes the period of Q1 2014. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at IDT is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of IDT, and is not intended to be and should not be used by anyone other than the specified party.



GSAssociates  
July 3, 2014

## **Overview of System Audit Requirements**

This System Audit Report covers FCC Order (03-235, Docket No 96-128), effective July 1, 2004 (the “Order”), requiring Interexchange Carriers (IXCs), LECs, CLECs and Switch Based Resellers (herein collectively or individually referred to as a “Carrier”), to establish and maintain a comprehensive Call Tracking System (CTS) which accurately reports and compensates Payphone Service Providers (PSPs).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor’s report shall conclude whether the CARRIER complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier’s procedures accurately reflect the Commission’s rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carrier’s have adequate and effective business rules for implementing and paying payphone compensation.

## **Audit Process & Procedures**

Our audit reports on all nine (9) points listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements (SSAE), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
  - a) *Objectivity* – free of bias
  - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
  - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
  - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independence mental attitude in all matters relating to the engagement.
- 5) Exercise Due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

IDT utilizes the services of an outsourced clearinghouse; Billing Services Group (BSG) to process Company provided CDR, compensate PSPs and satisfy all FCC mandated reporting requirements. We have attached BSG's SAR/SOC report as Exhibit "A". The scope of this audit as it relates to compensation is through March 31, 2014. The scope of this audit as it relates to IDT's processes and procedures subject to the Order is through June 30, 2014. Utilizing the services of a third party clearinghouse does not relinquish any responsibility by the carrier to comply with any of the rules of the order. This audit evaluates IDT's compliance with all points of the Order. It is incumbent on IDT to continuously monitor the processes of BSG.

## **PAYPHONE COMPENSATION**

### ***Policies & Procedures***

IDT has established and documented policies & procedures specifically in compliance with the Dial Around Compensation FCC order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

### ***Responsible Dedicated Staff***

IDT has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Carl W. Billek, Senior Regulatory Counsel is responsible for drafting necessary business requirements.
2. The Director of Operations Support Systems, Frank Schmidt, is responsible for developing & maintaining systems to create payphone call records from switch records.
3. Craig Brill, the CNS Operations Manager, Craig Brill, is responsible for implementing & maintaining procedures that check the validity of identified payphone records.
4. The Associate VP of Telecom Finance, Mark Rabizadeh, is responsible for implementing & maintaining procedures that create final compensation data sets.
5. The Reporting Analyst, Mindy Zimmerman is responsible for developing compensation tracking reports.
6. Mark Rabizadeh, the Associate VP of Telecom Finance, is responsible for dispute resolutions.

### ***Data Monitoring Procedures***

IDT has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports at the least reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

IDT has instituted processes that insure that no ani can be misreported to them by underlying carriers. This process guarantees compliance with commission rules. IDT's monitoring reports remains effective and accurate. Responsible parties indicate that employees continuously monitor these reports in addition to network operational reports, and that employees can request customized reports necessary for analysis and monitoring purposes.

### ***Compensation Assurance Protocols***

As outlined in the policies and procedures section of this report, procedures which guarantee that the company will remain in compliance with current FCC requirements are in place. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are done in accordance with guidelines and approvals documented in aforementioned procedure section and do not adversely affect its call tracking capabilities.

Client attests that there have not been any significant changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date.

### ***Compensable Call File and Reporting***

IDT compiles appropriate call detail, extracts records with the appropriate identifier, matches it with an internal ani databases provided by their billing aggregator BSG and then electronically transmits this data to BSG for further matching and payment. This process extracts data monthly, and then compiles the data when a complete quarter has been accumulated.

GSA reviewed a quarterly switch file for comparison to BSG result files. Our review of the file determined that it contained all the necessary data to perform the ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA further matched these records with the summary records provided to us by the client. These files clearly indicated the results of the matching process; specifically total records, total calls, total ani's as well as the subset of payphone originated calls and matched ani's. Quarterly funding and compensation invoice from BSG, describing the amount needed to fund payments to the PSPs matched compensation files were provided and matched to the source data. The files and documents related to compensation and reporting are complete and accurate.

### ***Dispute Resolution Procedures***

BSG is the first contact for a PSP to request additional information regarding payphone originated calls. BSG has previously provided its detail procedure for handling disputes from PSPs. If BSG cannot determine an appropriate answer to a payment question, they are directed to the IDT responsible party.

IDT indicated that no disputes have been brought to IDT's attention since the previous system audit was conducted.

### **Compensation Verification**

We have determined that Client has properly compensated PSPs for the first Quarter of 2014. We have reviewed Q114 payment files and verified the accuracy and completeness of these records, no discrepancies were found. In addition, BSG has verified the transfer of funds from IDT and the disbursement to the appropriate PSPs.

## **Audit Conclusions**

### ***FCC Relevant Rules Accurately Stated***

IDT has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.

### ***Established Security Protocols***

IDT has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

### ***Audit Findings***

IDT Telecom provides telecommunications services to consumers and businesses, including prepaid and rechargeable calling cards, local, long distance and wireless phone services, wholesale carrier services, and a range of voice over Internet protocol (VoIP) communications services.

GSA has reviewed, tested and documented the compensation system in use for the audit period, and concluded that it is effective and complete. IDT is compliant with the requirements of the Payphone Compensation Order.

**Exhibit A**

**PS&Co. Padgett Stratemann**

**Independent Service Auditor's Report**

To the Board of Directors  
Billing Services Group North America, Inc.  
San Antonio, Texas

**Scope**

We have examined Billing Services Group North America, Inc. and its affiliates' (collectively, "Billing Services Group," "BSG," or the "Company") description of its Dial Around Compensation System for processing user entities' transactions throughout the period from April 1, 2013 through March 31, 2014 (the "Description"), and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the Description. The Description indicates that certain control objectives specified in the Description can be achieved only if complementary user-entity controls contemplated in the design of BSG's controls are suitably designed and operating effectively, along with related controls at the service organization. We have not evaluated the suitability of the design or operating effectiveness of such complementary user-entity controls.

**BSG's Responsibilities**

In Section II of this report, BSG has provided an assertion about the fair presentation of the Description and the suitability of design and operating effectiveness of the controls to achieve the related control objectives ("Assertion") stated in the Description. BSG is responsible for preparing the Description and for the Assertion, including the completeness, accuracy, and method of presentation of the Description and the Assertion, providing the services covered by the Description, specifying the control objectives and stating them in the Description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the Description.

**Service Auditor's Responsibilities**

Our responsibility is to express an opinion on the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of the controls to achieve the control objectives stated in the Description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the Description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the Description throughout the period from April 1, 2013, through March 31, 2014.

**SAN ANTONIO**  
100 N.E. LOOP 410, SUITE 1100 B11  
550  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**  
BARTON SPRINGS ROAD, SUITE  
AUSTIN, TEXAS 78704  
512 476 0717

TOLL FREE: 800 879 4866  
WEB: PADGETT-CPA.COM

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the Description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the Description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the Description were achieved. An examination of this type also includes evaluating the overall presentation of the Description, the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in management's assertion in Section II of this report. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

*Inherent Limitations*

The Description is prepared to meet the common needs of a broad range of user entities and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent or detect and correct all errors or omissions in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the Description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

*Opinion*

In our opinion, in all material respects, based on the criteria described in BSG's assertion in Section II of this report:

- a. The Description fairly presents the Dial Around Compensation system that was designed and implemented throughout the period from April 1, 2013 through March 31, 2014.
- b. The controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period from April 1, 2013 through March 31, 2014 and if user entities applied the complementary user entity controls contemplated in the design of BSG's controls throughout the period from April 1, 2013 through March 31, 2014.
- c. The controls tested, which together with the complementary user-entity controls, were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved and operated effectively throughout the period from April 1, 2013 through March 31, 2014.

*Description of Tests of Controls*

The specific controls tested and the nature, timing, and results of those tests are listed in Appendix A of this report.

*Restricted Use*

This report and the description of tests of controls and results thereof in Appendix A of this report are intended solely for the information and use of BSG, user entities of BSG's Dial Around Compensation system during some or all of the period from April 1, 2013 through March 31, 2014, and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information, including information about the controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than those specified parties.

*Padgett, Statemann & Co., L.L.P.*

San Antonio, Texas May 16, 2014

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**Exhibit B**



**IDT Telecom, Inc.**

**Report of Management on Compliance with Applicable Requirements  
of Section 64.1310(a)(1) of the FCC's Rules and Regulations**

The management of IDT Telecom, Inc. is responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of the company's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of July 1, 2004, the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to the Company Payphone Call Tracking Systems.

Company is acknowledged as the "Completing Carrier" in the following call scenarios:

- Local Toll and Local Operated assisted calls with the Info Digits (27 and 70) completed by Company ("0" indicator).
- Local Toll and Local Operator assisted calls that do not contain the Info Digit 27 or 70 completed by Company ("0" indicator) but have the originating ANI listed in the "ANILEC" database of Billing Services Group, Limited for the applicable calendar quarter. This database contains those payphone ANIs submitted by both the PSP and the PSP's LEC.

All assertions for Company are from the point Company has visibility to the call tracking data.

Company utilizes a payment clearinghouse for payphone compensation settlement. As such, Factors (6) and (7) in their entirety and Factors (8) and (9) collectively are covered under the SAS-70 compliance report issued for the clearinghouse. Company has procedures in place to verify that controls and procedures relating to these assertions have been established and maintained. An independent accounting firm has performed an independent assessment of the effectiveness of such controls.

Company represents the following assertions where it is identified as the Completing Carrier:

**FCC Compliance Factor (1) – Company (“Completing Carrier”) procedures accurately track calls to completion.**

**FCC Compliance Factor (2) – Company (“Completing Carrier”) has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.**

**FCC Compliance Factor (3) - Company (“Completing Carrier”) has effective data monitoring procedures.**

**FCC Compliance Factor (4) - Company (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.**

**FCC Compliance Factor (5) – Company (“Completing Carrier”) creates a compensable payphone call file by using internal customer information matched to toll free records. This file contains all payphone traffic with payphone identifiers.**


**FCC Compliance Factor (6) – Company (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to PSPs.**

**FCC Compliance Factor (7) - Company (“Completing Carrier”) has implemented procedures and controls needed to resolve payphone compensation disputes.**

**FCC Compliance Factor (8) – Critical controls and procedures have been tested by Company (“Completing Carrier”) to verify that errors are insubstantial.**

**FCC Compliance Factor (9) – Company (“Completing Carrier”) has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing carrier owes compensation.**

Dated: June 9, 2014

  
\_\_\_\_\_  
Marcelo Fischer  
Chief Financial Officer  
IDT Telecom, Inc.

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